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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000337

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TAGS: ECON PGOV PREL BO

SUBJECT: BELARUSIAN ECONOMY WEAK BUT STABLE, VISITING DAS
TOLD

REF: A. MINSK 298

1B. MINSK 250

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

11. (C) Belarusian economists and business leaders told visiting EUR DAS Kramer the Belarusian economy, while weak, would remain stable. The slightly dampened economy might cause Lukashenko finally to consider one or two multibillion-dollar privatizations this year to raise revenues. Corruption, while present, does not dominate the economy. End summary.

12. (SBU) On April 24, EUR DAS David Kramer met with Vitaliy Arbuzov, General Director of FENOX, a holding company whose concerns include retail and hydraulic systems assembly; Sergey Levin, CEO of Detroit Breweries; Roman Osipov, lead investment analyst for Uniter Investments; Sergey Zhanov, economics correspondent for the independent weekly "BelGazeta;" and economics professor Leonid Zlotnikov. DCM, Pol/Econ Chief and Deputy Pol/Econ Chief attended as well.

Effects of Higher Energy Prices Not Catastrophic

13. (C) Zlotnikov gave DAS Kramer the most pessimistic economic forecast, predicting growth would grind to a halt once Belarus began paying the full price for gas. The other interlocutors all saw room for expansion. Osipov highlighted opportunities in real estate (ref A) and retail. Osipov noted the huge expansion in the Russian market would allow for continued export opportunities in the foreseeable future despite the weakness of Belarusian manufacturers. Zhanov told Kramer concerns about foreign reserves falling precipitously had passed. Both Arbuzov and Levin said the cost of energy price inputs has only a negligible impact on their businesses.

Lukashenko Still Undecided on Privatization

14. (C) Levin said Detroit Investments hoped to raise hundreds of millions of dollars for new projects in Belarus. Osipov added that foreign investors were eyeing the cement industry. Zhanov argued the crux of the energy dispute with Moscow hinged on Russia's desire to invest in Belarus. All agreed that the final decision rested with Lukashenko and no one could know whether he was ready to allow major privatizations. Levin said one or two major privatizations a

year, hopefully worth in total about USD 1-2 billion, could provide the government with sufficient funds to finance pet projects without cuts to social spending. Levin explained that Lukashenko saw his fundamental task as keeping enough profit-making industries afloat to cover those unable to break even.

Corruption Persists, but Not a Primary Concern

¶5. (C) In response to a question from Kramer, all the interlocutors conceded low-level corruption persisted in Belarus just as it did throughout much of the former Soviet Union. Osipov pointed to real estate as an area rife with corrupt dealings at a higher-level. At the highest level, a small circle of elites helped businesses carry out business plans in return for a fee. Arbuzov added that certain firms claimed they could fix court decisions. Zhabanov argued the most significant insider deals involved giving monopolies to favored individuals. Levin said companies seeking subsidies and special favors opened themselves up to the whims of officials.

Comment: Business Hoping the Time is Right for Investment

¶6. (C) Levin's evaluation of the Belarusian economic outlook as "poor and stable" represented the general consensus of analysts and business leaders. Even absent the threat of an imminent economic collapse, we agree with their assessment Lukashenko will need to make some concessions, such as major privatizations, to prevent gradual economic decline. We also understand the ultimate decision rests squarely with the Belarusian dictator, who would rather seek open-ended loans

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(ref B). If he perceives significant short-term political risks in selling off major assets, he will hold off regardless of the economic arguments.

¶7. (U) DAS Kramer did not clear this message prior to his departure from post.
Stewart